

### Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	125.31	4.35	1.00	130.66	4.40	1.50	131.21	131.21
Personal Services	6,115,508	631,352	51,599	6,798,459	627,602	75,924	6,819,034	13,617,493
Operating Expenses	7,434,615	2,395,039	238,970	10,068,624	2,721,324	258,403	10,414,342	20,482,966
Equipment	76,335	5,000	50,463	131,798	0	50,463	126,798	258,596
Local Assistance	509,984,289	8,466,265	2,170,593	520,621,147	13,899,729	3,090,015	526,974,033	1,047,595,180
Grants	119,604,611	14,082,528	85,000	133,772,139	21,003,299	85,000	140,692,910	274,465,049
<b>Total Costs</b>	<b>\$643,215,358</b>	<b>\$25,580,184</b>	<b>\$2,596,625</b>	<b>\$671,392,167</b>	<b>\$38,251,954</b>	<b>\$3,559,805</b>	<b>\$685,027,117</b>	<b>\$1,356,419,284</b>
General Fund	514,085,061	8,713,666	2,588,625	525,387,352	14,164,535	3,551,805	531,801,401	1,057,188,753
State/Other Special	943,936	15,843	8,000	967,779	15,848	8,000	967,784	1,935,563
Federal Special	128,186,361	16,850,675	0	145,037,036	24,071,571	0	152,257,932	297,294,968
<b>Total Funds</b>	<b>\$643,215,358</b>	<b>\$25,580,184</b>	<b>\$2,596,625</b>	<b>\$671,392,167</b>	<b>\$38,251,954</b>	<b>\$3,559,805</b>	<b>\$685,027,117</b>	<b>\$1,356,419,284</b>

### Agency Description

The Superintendent of Public Instruction is an elected official authorized by Article VI, Section 1, of the Montana Constitution. The Office of Public Instruction (OPI) provides distribution of funding and services to Montana's school-age children and to teachers in approximately 450 school districts. The staff provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher certification, school accreditation, school curriculum, school finance, and school law. The staff also administers a number of federally-funded programs and provides a variety of information services.

### Agency Highlights

Office of Public Instruction Major Budget Highlights	
<ul style="list-style-type: none"> <li>The Governor's recommended general fund budget for OPI is substantially present law increases only, and does not address the Court decision which declared the existing funding methodology unconstitutional.</li> <li>OPI's Administration budget increases by \$7.1 million during the 2007 biennium compared with fiscal 2004. Federal funds increase \$5.9 million and state general fund increases \$1.2 million. The largest component of the general fund increase is for development of curriculum and teacher training for the Indian Education for All Act.</li> <li>OPI's budget for distribution to schools increases by \$62.9 million during the 2007 biennium. Of this amount, \$27.8 million is an increase in state general fund and \$35.1 million is an increase in federal authority.</li> <li>In the general fund distribution to schools, the executive proposes to: <ul style="list-style-type: none"> <li>Increase present law BASE aid by \$16.4 million, which reflects a BASE aid reduction of \$11.9 million for declines in ANB, a BASE aid increase of \$29.0 million for inflation, and adjustments for higher common school revenue estimates (which result in reductions in general</li> </ul> </li> </ul>	

<p>fund BASE aid) of \$0.7 million</p> <ul style="list-style-type: none"> <li>• Increase present law special education spending by \$1.5 million, and add new special education spending of \$2.3 million</li> <li>• Increase present law school facility spending by \$0.3 million and new school facility spending by \$2.0 million.</li> <li>• Increase present law transportation spending by \$0.3 million</li> <li>• Increase present law HB 124 block grants by \$1.9 million.</li> <li>• Increase secondary vocational education spending by \$0.6 million</li> <li>• Increase gifted and talented spending by \$0.2 million.</li> <li>• Increase present law biennial appropriations by \$0.4 million</li> <li>• In federal distribution to schools spending the executive proposes to: <ul style="list-style-type: none"> <li>• Increase spending on special education by \$18.5 million.</li> <li>• Increase spending for the federal school foods program of \$9.9 million</li> <li>• Increase spending on the Elementary and Secondary Education Act (ESEA) program by \$6.8 million primarily for the 21<sup>st</sup> Century Program</li> </ul> </li> </ul>
<b>Major LFD Issues</b>
<ul style="list-style-type: none"> <li>• Higher revenue estimates for Base Aid adopted by the Revenue and Transportation Interim Committee in the guarantee fund could reduce general fund costs by \$6.9 million.</li> </ul>

### Agency Discussion

The Office of Public Instruction budget increases by \$70.0 million in the 2007 biennium, including \$7.1 million for OPI administration and \$62.9 million for distribution to schools. General fund increases are \$1.2 million for OPI administration and \$27.8 million for distribution to schools. Increases for distribution to schools are predominantly present law adjustments based on the current funding formula.

### *School Funding Lawsuit*

In April 2004, the district court (Sherlock) in Columbia Falls v. Montana found the state share of school district spending inadequate, and found that Montana's funding formula is not reasonably related to the costs of providing a basic system of free quality public elementary and secondary schools. The case was appealed to the Montana Supreme Court in June 2004. In November, the Montana Supreme Court affirmed the Sherlock opinion that the current funding system is not related to educationally relevant factors.

As a result of this decision, the legislature is directed to:

- Define the educationally relevant elements of a basic system of free quality public elementary and secondary schools
- Determine the costs of delivering the resources required by that system for both operating and capital expenses
- Devise a funding formula in law that will determine the state's share of school districts' resources; and
- Revise or augment state and district revenues required to pay for the system.

The effective date of the Sherlock decision is October 1, 2005 and the Supreme Court affirmed that date. However, the Sherlock decision also allows a phase-in of the ultimate remedy to its order.

The executive budget was submitted before the Supreme Court upheld the Sherlock Decision, and the budget is based on present law.

- The executive budget continues the current funding system, and offers no proposals to alter it to reflect the cost of educationally relevant factors.
- The executive budget contains no proposals to fund a study defining educationally relevant factors and the cost of educationally relevant factors.

The Supreme Court also affirmed Sherlock's conclusion that the current funding system violates Article X, Section 1(2) of the Montana Constitution in that it fails to recognize the distinct and unique cultural heritage of American Indians and has shown no commitment in its educational goals to the preservation of Indian cultural identity.

- The executive budget proposes no new program or spending on teaching Indian cultural heritage to non-Indian students at the district level nor does it propose a new program or spending on teaching Indian identity to Indian students. The executive does propose to develop curriculum materials and program definitions in the administration program.

For a further discussion of the school funding lawsuit, please see Volume 1 of the Legislative Budget Analysis, 2007 biennium.

### Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2007 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
06 State Level Activities	\$ 10,120,175	\$ 435,563	\$ 23,845,919	\$ 34,401,657	3%
09 Local Education Activities	<u>1,047,068,578</u>	<u>1,500,000</u>	<u>273,449,049</u>	<u>1,322,017,627</u>	<u>97%</u>
Grand Total	<u>\$ 1,057,188,753</u>	<u>\$ 1,935,563</u>	<u>\$ 297,294,968</u>	<u>\$1,356,419,284</u>	<u>100%</u>

OPI has two programs, state level activities, more commonly known as OPI administration, and local education activities, more commonly known as the distribution to schools program. OPI administration receives approximately 31 percent of its funding from the general fund and state special accounts. The remainder of the OPI administration program is funded by federal funds. The distribution to schools program is funded 79 percent with state funds and the remainder with federal funds. Administration is 2.5 percent of all funds requested and the remainder flows to school districts.

### Biennium Budget Comparison

The following table compares the executive budget request in the 2007 biennium with the 2005 biennium by type of expenditure and source of funding. The 2005 biennium consists of actual FY 2004 expenditures and FY 2005 appropriations.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	Present Law Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Biennium Fiscal 04-05	Total Exec. Budget Fiscal 06-07
FTE	129.66	1.00	130.66	129.71	1.50	131.21	125.31	131.21
Personal Services	6,746,860	51,599	6,798,459	6,743,110	75,924	6,819,034	12,281,079	13,617,493
Operating Expenses	9,829,654	238,970	10,068,624	10,155,939	258,403	10,414,342	20,854,975	20,482,966
Equipment	81,335	50,463	131,798	76,335	50,463	126,798	128,637	258,596
Local Assistance	518,450,554	2,170,593	520,621,147	523,884,018	3,090,015	526,974,033	1,020,697,780	1,047,595,180
Grants	133,687,139	85,000	133,772,139	140,607,910	85,000	140,692,910	255,203,067	274,465,049
Total Costs	\$668,795,542	\$2,596,625	\$671,392,167	\$681,467,312	\$3,559,805	\$685,027,117	\$1,309,165,538	\$1,356,419,284
General Fund	522,798,727	2,588,625	525,387,352	528,249,596	3,551,805	531,801,401	1,028,977,504	1,057,188,753
State/Other Special	959,779	8,000	967,779	959,784	8,000	967,784	1,891,952	1,935,563
Federal Special	145,037,036	0	145,037,036	152,257,932	0	152,257,932	278,296,082	297,294,968
Total Funds	\$668,795,542	\$2,596,625	\$671,392,167	\$681,467,312	\$3,559,805	\$685,027,117	\$1,309,165,538	\$1,356,419,284

Total spending for both programs in OPI will increase by approximately \$47.3 million between the two biennia. General fund spending increases \$28.2 million, and federal funds increase by \$19.0 million. The general fund increase is slightly misleading because not shown is funding provided by the guarantee fund, which statutorily appropriates common school interest and income and does not appear in HB 2. During the 2005 biennium approximately \$103.4 million will be spent. In the 2007 biennium, it is expected that \$99.0 million will be spent out of the guarantee fund under the executive's recommendation, for a decrease of \$4.4 million.

### New Proposals

The "New Proposal" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	-----Fiscal 2006-----				-----Fiscal 2007-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 4 - Indian Education for All										
06	1.00	248,032	0	0	248,032	1.00	247,873	0	0	247,873
DP 6 - Special Education Increase										
09	0.00	885,593	0	0	885,593	0.00	1,805,015	0	0	1,805,015
DP 17 - Educator Preparation Unit Reviews										
06	0.00	0	8,000	0	8,000	0.00	0	8,000	0	8,000
DP 21 - Additional School Facility Reimbursement										
09	0.00	1,000,000	0	0	1,000,000	0.00	1,000,000	0	0	1,000,000
DP 50 - Additional funding - Gifted and Talented										
09	0.00	85,000	0	0	85,000	0.00	85,000	0	0	85,000
DP 51 - Additional funding - Career & Technical Education										
09	0.00	285,000	0	0	285,000	0.00	285,000	0	0	285,000
DP 53 - Gifted and Talented Assistance										
06	0.00	0	0	0	0	0.50	43,917	0	0	43,917
DP 54 - Audiology equipment - Restricted/OTO										
06	0.00	85,000	0	0	85,000	0.00	85,000	0	0	85,000
<b>Total</b>	<b>1.00</b>	<b>\$2,588,625</b>	<b>\$8,000</b>	<b>\$0</b>	<b>\$2,596,625</b>	<b>1.50</b>	<b>\$3,551,805</b>	<b>\$8,000</b>	<b>\$0</b>	<b>\$3,559,805</b>

### Elected Officials New Proposals

As an elected official, the Superintendent of the Office of Public Instruction is authorized in statute to bring new proposals to the legislature, even though the new proposals were not included in the executive's budget. The following new proposals were presented to the executive but were not approved:

#### Program – Administration

- Request for 4 FTE as accreditation/technical assistance specialists – in math, science, reading and early grades – to assist in achieving improvement in these areas. Amount requested - \$0.84 million during the 2007 biennium.

- Request for additional gifted and talented administration of \$52,213 in each year of the 2007 biennium. The executive budget includes \$43,917 in fiscal 2007 only.
- Request for \$33,000 in stipend monies for the National Board Certification Stipends program to fund up to \$3,000 per teacher during the 2007 biennium.
- Request for \$91,000 for the surplus computers program. The executive request is for \$73,000.
- Request for \$7,080 for the education licensure program. The executive request is for \$3,540 per year.
- Request to establish databases of accreditation and student improvement data for use by educators, administrators, and parents. Amount requested was \$92,414 in each year of the 2007 biennium.
- Request to develop a data warehouse with student-centered information that would be useful to students, higher education, and employers. Amount requested was \$0.8 million and an additional 3 FTE. It was expected that federal and competitive grant monies would be \$0.4 million.
- Request of \$0.15 million to pay costs associated with Department of Administration charges for operation of the state accounting, budgeting and human resource system (SABHRS).

#### Program – Distribution to Schools

- Request for a per-educator entitlement of \$1,000 per certified FTE. This would be added to the BASE aid entitlement formula and would cost approximately \$25.7 million during the 2007 biennium.
- Request for voluntary full-day kindergarten for schools that wish to participate. Amount of the proposal would be \$22 million in the 2007 biennium.
- Request for increase in the gifted and talented program. The request is for an additional \$200,000 per year above the base year amount of \$150,000. The executive request is for an additional \$85,000 per year above the base year amount.
- Request for an increase in the state vocational education amount of \$585,000 per year above the current base year amount of \$715,000 per year. The executive request is for an additional \$285,000 above the base year amount.
- Request for additional school facility reimbursement monies in the amount of \$6.8 million during the 2007 biennium. The executive request is for \$2.0 million during the 2007 biennium.

#### Executive Recommended Legislation

The executive recommends two initiatives that require legislation:

- 1) To increase school funding entitlements by the ratio of inflation as required by the statutory definition of present law. Currently the inflation factors in law are required to be placed in the budget proposed by the executive to the legislature, which the legislature may ignore. This would bind the legislature to these inflation factors and would require positive legislative action to rescind.
- 2) To require that OPI repay the tuition for state placed students to districts instead of the county paying these costs from statewide school levies. Currently tuition is deducted from the 55 mills in the county in which a student lives and transferred to the county and school district in which the student is educated. This proposal would require the state to directly fund the costs of the state-placed student out of the general fund of the state.

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	125.31	4.35	1.00	130.66	4.40	1.50	131.21	131.21
Personal Services	6,115,508	631,352	51,599	6,798,459	627,602	75,924	6,819,034	13,617,493
Operating Expenses	7,432,791	2,394,863	238,970	10,066,624	2,721,148	258,403	10,412,342	20,478,966
Equipment	76,335	5,000	50,463	131,798	0	50,463	126,798	258,596
Local Assistance	19,301	4,000	0	23,301	4,000	0	23,301	46,602
Grants	0	0	0	0	0	0	0	0
<b>Total Costs</b>	<b>\$13,643,935</b>	<b>\$3,035,215</b>	<b>\$341,032</b>	<b>\$17,020,182</b>	<b>\$3,352,750</b>	<b>\$384,790</b>	<b>\$17,381,475</b>	<b>\$34,401,657</b>
General Fund	4,452,922	243,552	333,032	5,029,506	260,957	376,790	5,090,669	10,120,175
State/Other Special	193,936	15,843	8,000	217,779	15,848	8,000	217,784	435,563
Federal Special	8,997,077	2,775,820	0	11,772,897	3,075,945	0	12,073,022	23,845,919
<b>Total Funds</b>	<b>\$13,643,935</b>	<b>\$3,035,215</b>	<b>\$341,032</b>	<b>\$17,020,182</b>	<b>\$3,352,750</b>	<b>\$384,790</b>	<b>\$17,381,475</b>	<b>\$34,401,657</b>

**Program Description**

The State Level Activities program provides leadership and coordination of services to a variety of school and public groups. The staff provides assistance to the Superintendent of Public Instruction in performing statutorily prescribed duties. The program: 1) supports the Superintendent's statutory role with the Board of Public Education, Board of Regents, and Land Board; 2) is responsible for the distribution and accounting of state and federal funds provided to school districts; and 3) provides assistance and information to school districts. The program administers all federal grants received by OPI, including: 1) curriculum assistance; 2) special education; 3) Elementary and Secondary Education Act (ESA)/No Child Left Behind (NCLB) administration; 4) secondary vocational education administration; and 5) other educational services.

**Program Highlights**

OPI Administration Major Budget Highlights
<ul style="list-style-type: none"> <li>OPI's Administration budget increases by \$7.1 million during the 2007 biennium compared with fiscal 2004. Federal funds increase \$5.9 million and state general fund increases \$1.2 million. The largest component of the general fund increase is for development of curriculum and teacher training for the Indian Education for All Act.</li> <li>OPI's Administration program increases by a net of 4.35 FTE, with additions of 0.25 added for the surplus computer program funded by general fund, a reduction of 1.60 FTE general fund due to statewide reductions, and an increase of 5.70 FTE due to present law changes in federal funding.</li> <li>New proposal FTE total 1.0 additional FTE general fund to develop a curriculum for the Indian Education for All Act.</li> <li>OPI's general fund administration budget increases due to new proposals in Indian education curriculum development and teacher training, expansion of gifted and talented administration, and the purchase of audiology equipment.</li> </ul>

<b>Major LFD Issues</b>
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| <ul style="list-style-type: none"> <li>The executive proposes \$0.5 million general fund and 1.0 FTE to develop curriculum materials and teacher training in Indian education. There are no proposals to spend any of this money in the distribution to schools program.</li> </ul> |
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**Funding**

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommend by the Governor.

Program Funding Table						
State Level Activities						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 4,452,922	32.6%	\$ 5,029,506	29.6%	\$ 5,090,669	29.3%
02001 School Lunch Program	84,678	0.6%	100,049	0.6%	100,051	0.6%
02012 Misc Grants/Contracts-Budgeted	-	-	-	-	-	-
02402 Traffic & Safety Education	109,258	0.8%	109,730	0.6%	109,733	0.6%
02618 Prof Educator Prep Program	-	-	8,000	0.0%	8,000	0.0%
03002 Public Instruction	8,997,077	65.9%	11,772,897	69.2%	12,073,022	69.5%
03717 Jobs And Growth Tax Relief Act	-	-	-	-	-	-
Grand Total	<u>\$ 13,643,935</u>	<u>100.0%</u>	<u>\$ 17,020,182</u>	<u>100.0%</u>	<u>\$ 17,381,475</u>	<u>100.0%</u>

State Level Activities are funded with a combination of general fund, state special revenue, federal funds, and proprietary funds.

**Figure 1**  
**OPI Agency Funding By Function (with New Proposals)**  
**2007 Biennium Executive Budget**

Function	Fiscal 2006				Fiscal 2007			
	General Fund	State Special	Federal Special	Total	General Fund	State Special	Federal Special	Total
Superintendent	\$876,212	\$0	\$68,694	\$944,906	\$888,067	\$0	\$68,624	\$956,691
Legal Services	419,811	0	218,956	638,767	419,387	0	219,652	639,039
Information Technology	902,929	0	0	902,929	896,854	0	0	896,854
Distribution to Schools	724,616	0	0	724,616	724,204	0	0	724,204
Curriculum Services	511,148	0	3,390,221	3,901,369	510,588	0	3,391,213	3,901,801
Accreditation	226,137	8,000	527,233	761,370	226,073	8,000	526,552	760,625
Health Enhancement & Safety	56,073	209,779	1,508,453	1,774,305	58,061	209,784	1,508,785	1,776,630
Educational Opportunity & Equity	480,019	0	2,536,395	3,016,414	523,397	0	2,538,816	3,062,213
Special Education	517,613	0	2,894,960	3,412,573	529,274	0	3,191,402	3,720,676
Career Technical & Adult Education	314,948	0	627,985	942,933	314,764	0	627,978	942,742
Total	<u>\$5,029,506</u>	<u>\$217,779</u>	<u>\$11,772,897</u>	<u>\$17,020,182</u>	<u>\$5,090,669</u>	<u>\$217,784</u>	<u>\$12,073,022</u>	<u>\$17,381,475</u>

### Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----						-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					680,090					674,854
Vacancy Savings					(267,439)					(267,236)
Inflation/Deflation					(4,295)					(4,132)
Fixed Costs					15,980					18,407
<b>Total Statewide Present Law Adjustments</b>					<b>\$424,336</b>					<b>\$421,893</b>
DP 12 - Provide Funding for Surplus Computers for Schools	0.25	38,822	0	0	38,822	0.25	33,808	0	0	33,808
DP 13 - Education Licensure Increased costs	0.00	3,540	0	0	3,540	0.00	3,540	0	0	3,540
DP 16 - Audiology	0.00	22,883	0	0	22,883	0.00	34,477	0	0	34,477
DP 18 - Statewide Student Assessment	0.00	29,250	0	0	29,250	0.00	43,250	0	0	43,250
DP 26 - Growth in Commodities and Cooperative Purchasing	0.00	0	15,000	0	15,000	0.00	0	15,000	0	15,000
DP 27 - Federal Grant Increases	5.70	0	0	2,457,751	2,457,751	5.70	0	0	2,755,494	2,755,494
DP 29 - Indirect Cost of Base Adjustments	0.00	40,877	843	51,651	93,371	0.00	40,336	848	51,769	92,953
DP 30 - Statewide FTE Reduction	(1.60)	(49,738)	0	0	(49,738)	(1.55)	(47,665)	0	0	(47,665)
<b>Total Other Present Law Adjustments</b>	<b>4.35</b>	<b>\$85,634</b>	<b>\$15,843</b>	<b>\$2,509,402</b>	<b>\$2,610,879</b>	<b>4.40</b>	<b>\$107,746</b>	<b>\$15,848</b>	<b>\$2,807,263</b>	<b>\$2,930,857</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$3,035,215</b>					<b>\$3,352,750</b>

DP 12 - Provide Funding for Surplus Computers for Schools - OPI began administering this program with existing staff and resources after it was authorized by the 1999 Legislature (18-6-101, MCA). As a result of growth in this program, OPI requests increasing an existing 0.25 FTE to a 0.50 FTE, providing storage space, supplies, phone and internet service to the storage facility, and providing funding to lease or purchase, operate and maintain, an older model vehicle for hauling computers from a state agency to the storage facility. The general fund cost for these increases is \$38,822 in FY 2006 and \$33,808 in FY 2007.

DP 13 - Education Licensure Increased costs - The executive recommends a present law adjustment for the Education Licensure program in the amount of \$3,540 general fund in each year of the 2007 biennium for increased costs associated with scanning education licenses, conducting fingerprint-based background checks for initial applicants for an educator license, and for additional mailings to educators.

DP 16 - Audiology - Current contracts for the audiological program total \$355,156. In order to maintain contractor participation, OPI anticipates needing to provide a minimum of a 3 percent increase per year. A 3 percent increase totals \$22,883 in FY 2006 and \$34,477 in FY 2007.

Under the Individuals With Disabilities Education Act (IDEA), schools are required to have an effective child-find system in place for individuals with disabilities birth through 21. The Hearing Conservation Program is the primary method in which public schools identify students who may have a hearing impairment.



**LFD  
COMMENT**

There is a contingency in the audiology contract that allows less to be contracted in the event of inadequate funding from the legislature.

DP 18 - Statewide Student Assessment - This request is for a present law adjustment to fund the increased costs associated with the Office of Public Instruction's contract with Riverside Publishing Company for administration of the Iowa Test of Basic Skills (ITBS) in grades 4 and 8, and the Iowa Test of Educational Development (ITED) in grade 11. The statewide student assessment is required by the Administrative Rules of the Board of Public Education for the accreditation of schools for grades 4, 8, and 11. The present law base for the Statewide Student Assessment is \$253,250 general fund. The executive proposes to extend the contract with Riverside Publishing Company for fiscal years 2006 and 2007. Riverside Publishing Company has provided a price quote of \$278,000 for fiscal 2006 and \$292,000 for fiscal 2007. The present law adjustment for FY 2006 is \$29,250 and for FY 2007 is \$43,250 general fund.

**LFD  
COMMENT**

The Iowa Basic tests proposed here have been used in Montana since 2001. The Iowa Tests are norm-referenced tests that measure basic skills. In a norm-referenced test, student achievement is compared to the achievement of students in a national norm group. Montana also uses a criterion-referenced test that was first implemented in FY 2004. A criterion-referenced test is a test aligned to academic content standards. The Montana Criterion-Referenced Test (CRT) is aligned to Montana Content Standards in Reading and Mathematics. In the CRT, Montana student achievement is compared to achievement on those standards. The No Child Left Behind Act requires that adequate yearly progress (AYP) be measured by a criterion-referenced test. OPI has a contract to administer the current CRT with the firm Measured Progress. The contract with Measured Progress is approximately \$2.5 million a year for 5 years and is paid for with federal money. It is usual for criterion-referenced tests to be more expensive than norm-referenced tests. The Board of Public Education has an assessment committee that reviews and recommends assessments to the Board. The committee is currently reviewing the assessment options for after the 2007 biennium.

DP 26 - Growth in Commodities and Cooperative Purchasing - This increase of \$15,000 in state special spending authority for the Commodities and Cooperative Purchasing budget from the current \$85,000 to \$100,000 for each year of the new biennium is the result of growing use of the program by private and public entities.

DP 27 - Federal Grant Increases - This increase of \$15,000 in state special spending authority for the Commodities and Cooperative Purchasing budget from the current \$85,000 to \$100,000 for each year of the new biennium is the result of growing use of the program by private and public entities.

**LFD  
COMMENT**

The increased spending authority would be used to cover the following: 1) an increase in the amount of commodity foods to be allocated resulting in increased food storage and transportation costs for non-public schools and private residential child care institutions; and 2) increased project costs for the cooperative food purchasing program, specifically, travel and meeting expenses of a newly developed committee of local school personnel that provides input on ordering and processing preferences for foods that are to be available on the state bid.

DP 29 - Indirect Cost of Base Adjustments - This \$5.2 million increase in federal spending authority for grant awards currently administered by the Office of Public Instruction is due to normal increases in federal funding. These funds are used to support the administration of current federal grants and to provide technical assistance to sub-grantees (districts and cooperatives). This is a biennial appropriation.

**LFD  
COMMENT**

The following figure lists the purposes of the federal money.

Figure 2 Present Law Changes in Federal Grant Administration 2007 Biennium			
Grant	Base 2004	Fiscal 2006	Fiscal 2007
<b>Programs Increased</b>			
Individuals with Disabilities Education Act, Part B	\$1,426,512	\$468,536	\$764,205
Individuals with Disabilities Education Act, Supervision	113,256	300,000	300,000
State Assessments	2,634,840	1,151,630	1,153,037
Reading First	209,541	511,322	511,894
Title V, Learn& Serve, Character Ed.	<u>182,053</u>	<u>26,263</u>	<u>26,358</u>
Total	<u>\$4,566,202</u>	<u>\$2,457,751</u>	<u>\$2,755,494</u>

**DP 30 - Statewide FTE Reduction** - This decision package implements an FTE reduction equivalent to the reductions taken in the 2003 legislative session. This 1.60 FTE and \$49,000 general fund per year would be removed from the budget permanently.

**New Proposals**

Fiscal 2006						Fiscal 2007				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 4 - Indian Education for All										
06	1.00	248,032	0	0	248,032	1.00	247,873	0	0	247,873
DP 17 - Educator Preparation Unit Reviews										
06	0.00	0	8,000	0	8,000	0.00	0	8,000	0	8,000
DP 53 - Gifted and Talented Assistance										
06	0.00	0	0	0	0	0.50	43,917	0	0	43,917
DP 54 - Audiology equipment - Restricted/OTO										
06	0.00	85,000	0	0	85,000	0.00	85,000	0	0	85,000
Total	1.00	\$333,032	\$8,000	\$0	\$341,032	1.50	\$376,790	\$8,000	\$0	\$384,790

**DP 4 - Indian Education for All** - This biennial general fund appropriation of \$0.5 million and 1.00 FTE is to respond to the constitutional and statutory obligations to preserve the distinct and unique cultural heritage of American Indians. This appropriation would be used for:

- Annual summit and focus groups to receive/share information concerning issues in the education of American Indian students and to plan for the implementation of Indian Education for All
- Extensive and focused professional development for teachers and administrators
- Development of research based curricular materials and teaching strategies;
- Dissemination of effective practices
- Regular meetings of the Montana Advisory Committee for Indian Education (MACIE) to provide policy advice to the State Superintendent and Board of Public Education; and
- Creation of a Native American Studies curriculum council

**LFD  
ISSUE**

The Supreme Court found that Montana inadequately provides funds to satisfy Article X, Section 1(2) of the Montana Constitution. Although this proposal allows for the development of curriculum and teacher training, no money in the distribution program has been allocated to Indian education at the district level.

**LFD  
ISSUE**

The executive allocated \$50,000 in federal Jobs and Growth Reconciliation Act monies to OPI to apply to the Indian Education for All Act. This money was spent in FY2004 and FY2005 for: 1) a summit of educators to discuss strategies for educating Montana students about the distinct and unique cultural heritage of Montana's tribal nations and for closing the achievement gap between Native and non-Native students; 2) production of cultural displays for use by school districts; and 3) development of a brochure explaining Indian education.

DP 17 - Educator Preparation Unit Reviews - OPI requests \$16,000 state special authority to spend the funds paid by campuses of the Montana institutions of higher education for review of educator preparation programs. Programs are reviewed for compliance with the teacher preparation standards adopted by the Board of Public Education. Fees charged for this service are a flat fee of \$500 per campus, plus \$50 for each program to be reviewed.

**LFD  
COMMENT**

The Montana Board of Public Education adopts the educator preparation program standards that guide the approval process for all teacher preparation programs in Montana. The Montana Professional Educator Preparation Program Standards (PEPPS) are reviewed on a five-year cycle. The current PEPPS are in effect from January 2001 through December 2005.

The Office of Public Instruction supports the implementation and oversees the review of the standards. Developed with the cooperation of preschool through postsecondary educators and Montana's education community and the public, the standards are intended to contribute to the improvement and growth of teacher education programs. The review of educator preparation programs conducted under the standards ensures that prospective educators have completed an approved education program before entering the teaching profession.

DP 53 - Gifted and Talented Assistance - An increase of 0.5 FTE and \$43,917 general fund would be added to the Office of Public Instruction staff in FY 2007 to assist districts in providing gifted and talented education to students throughout the state with technical assistance and support.

DP 54 - Audiology equipment - Restricted/OTO - Replacement of the equipment used to test the hearing of students across the state is requested. Much of the current equipment is beyond its useful life. This \$170,000 general fund one-time-only appropriation would be used to ensure that all equipment used in the state will be functional and up to date.

## Proprietary Rates

### Proprietary Program Description

OPI Indirect Cost Pool - OPI's internal service fund (A/E 06512) is used to pool internal and statewide central service type costs that are charged back to all of OPI's state and federally funded programs using a pre-approved indirect cost rate.

The Advanced Driver Education program - This is a seasonal, hands-on behind-the-wheel crash avoidance program operated by the Health Enhancement and Safety Division of the Office of Public Instruction. The one-day and half-day refresher courses provide training to school bus drivers, driver education teachers, Montana Department of Transportation employees, ambulance drivers, and others who drive as a part of their employment. The program offers its services to employees of government services and to the general public.

**Proprietary Revenues and Expenses****Revenue Description**

Indirect cost pool revenues are a function of the amount of expenditures recorded in the State Level Activities Program. Revenues are generated monthly by applying an approved indirect cost rate to the prior month's direct personal services and operating expenditures in both State and Federally funded programs. Last fiscal year OPI federal programs contributed \$910,384 towards the cost of "indirects"; general and other state-funded programs contributed \$633,534.

**Expense Description**

Costs of OPI operations that are paid from the indirect cost pool include:

- Termination payouts (vacation/comp time/sick leave) for all staff (except the State Superintendent and her personal staff)
- Services provided to OPI by other state agencies for a fee
- Depart. of Admin. (DofA) General Liability Insurance and Employee Bonds
- DofA Warrant writing fees
- DofA Payroll Service fees
- DofA telephone equipment charges
- DofA rent charge for common areas (bathrooms, halls, conference rooms)
- Legislative audit fees
- DofA network service fees
- Fish, Wildlife and Parks grounds maintenance fee
- OPI's share of statewide indirect costs, allocated through a Statewide Cost Allocation Plan (SWCAP) prepared by the Department of Administration
- Payroll, personnel, accounting, budgeting, data management, cash management, financial reporting, purchasing, word processing, mail delivery and resource center services to all OPI programs. Operating costs associated with 22.15 positions are paid from the pool, including the cost of rent for space they occupy, office supplies, postage, long distance phone charges, equipment, training, travel, photocopy charges, etc.
- General-use items such as paper, FAX lines and shared equipment, including maintenance contracts on that equipment.

**Working Capital Discussion**

Working capital is not considered in the rate determination. Sufficient working capital is needed for cash flow during the first 30 - 45 days of the fiscal year.

**Fund Equity and Reserved Fund Balance**

There is no requirement to reserve fund balance. Management's objective is to maintain the minimum balance necessary for on-going operations. If a significant balance accumulates because direct expenses increase at a faster rate than indirect expenses, the approved rate will adjust downward to reduce the excess over time.

**2007 Biennium Report on Internal Service and Enterprise Funds 2007**

Fund	Fund Name	Agency #	Agency Name	Program Name		
6512	Indirect Cost Pool	3501	Office of Public Instruction	State Level Activities		
					Actual FY02	Actual FY03
					Actual FY04	Budgeted FY05
					Budgeted FY06	Budgeted FY07
<b>Operating Revenues:</b>						
Nonfederal indirect cost recoveries					649,954	635,511
Federal Indirect Cost Recoveries					819,356	846,091
Other Operating Revenues					2,087	2,270
Total Operating Revenue					1,471,397	1,483,872
<b>Operating Expenses:</b>						
Personal Services					1,747,075	998,570
Other Operating Expenses					668,954	645,894
Total Operating Expenses					2,416,029	1,644,464
Operating Income (Loss)					(944,632)	(160,592)
Total Net Assets- July 1 - As Restated					277,884	138,295
Prior Period Adjustments					805,043	5,637
Total Net Assets - July 1 - As Restated					1,082,927	143,932
Net Assets- June 30					138,295	(16,660)
60 days of expenses (Total Operating Expenses divided by 6)					402,672	274,077

**Advanced Driver Education Program-****Revenue Description**

Revenues are generated from workshop fees collected from participants in the program and from other track users for the use of the facility. Typically the program services 450-550 participants a season. The current fee is \$225 for full-day workshop per person and \$135 for a half-day. There will be anticipated growth in services to participants of 10 percent. This increase is due to an agreement with MDT to conduct a teen research project. It is also expected to see modest growth in other users of the track who pay for its use.

**Expense Description**

Cost drivers for fees include instructor expenses (includes salaries, travel and per diem); vehicle maintenance and operating expenses; classroom and track supplies; track lease; program advertising; administration (planning, scheduling, registrations, advertising, professional development of staff, support services, etc.). Unexpected increases in fuel costs this last year consumed the revenue projected to support periodic capital and maintenance costs. It is anticipated that an increase in fees is needed to keep abreast of inflation.

**Working Capital Discussion**

This program is a summer seasonal program that operates 45 - 55 days during June, July and August. The program typically employs four grade 16 instructors for each workshop (10 - 11 hours per day each). A director (.15) and a program specialist (.125) provide administrative support during the year. Most revenue is received in April - June through pre-paid workshop registrations. Most expenses are realized June through August, with continuing administrative expenses during the remainder of the year. The program requires 30 - 45 percent of its annual budget to be carried over into the next fiscal year to cover working expenses paid out July - March.

**Fund Equity and Reserved Fund Balance**

In addition to operating expenses during non-revenue months, the program also incurs periodic (every 2 - 5 years) expenditures for replacement of vehicles and facility maintenance/improvement. Payment of these services requires accumulation and carryover of revenues from year to year an amount of approximately 10 - 20 percent of its annual budget.

### Proprietary Rate Explanation

OPI negotiates a three-year "predetermined rate" with the U.S. Department of Education every year. The rate is calculated in accordance with federal regulations and section 17-3-111(1), MCA. The rate approved for FY 2005 through 2007 is 17.3 percent.

### Advance Driver Education-

Workshop rates are fixed rates evaluated against workshop personnel expenses, operating expenses and depreciated vehicle costs on a seasonal basis to ensure workshop operating expenses are covered. Inflationary influences are anticipated as best as possible to ensure that inflation does not leave the program in a deficit situation. All attempts are made to keep workshop fees low since the potential customers such as bus drivers, volunteer firemen and ambulance drivers have small training budgets. Facility use rates are fixed rates that reflect a share of facility costs to lease and maintain track and buildings.

2007 Biennium Report on Internal Service and Enterprise Funds 2007									
Fund	Fund Name	Agency #	Agency Name	Program Name					
6067	Advanced Drivers Education	3501	Office of Public Instruction	State Level Activities					
				Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
<b>Operating Revenues:</b>									
Fee revenue									
Revenue from Fee A				-	-	-	-	-	-
Revenue from Fee B				-	-	-	-	-	-
Revenue from Fee C				-	-	-	-	-	-
Revenue from Fee D				-	-	-	-	-	-
Revenue from Fee E				-	-	-	-	-	-
Revenue from Fee F				-	-	-	-	-	-
Net Fee Revenue				101,415	100,928	88,918	131,000	98,000	100,000
Investment Earnings				-	-	-	-	-	-
Securities Lending Income				-	-	-	-	-	-
Premiums				-	-	-	-	-	-
Other Operating Revenues				-	-	2,685	-	-	-
Total Operating Revenue				101,415	100,928	91,603	131,000	98,000	100,000
<b>Operating Expenses:</b>									
Personal Services				48,062	52,213	50,274	57,712	54,302	54,207
Other Operating Expenses				45,032	40,668	39,864	79,926	42,444	42,940
Total Operating Expenses				93,094	92,881	90,138	137,638	96,746	97,147
Operating Income (Loss)				8,321	8,047	1,465	(6,638)	1,254	2,853
<b>Nonoperating Revenues (Expenses):</b>									
Gain (Loss) Sale of Fixed Assets				-	-	-	-	-	-
Federal Indirect Cost Recoveries				-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)				-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)				-	-	-	-	-	-
Income (Loss) Before Operating Transfers				8,321	8,047	1,465	(6,638)	1,254	2,853
Contributed Capital				-	-	-	-	-	-
Operating Transfers In (Note 13)				24,460	-	-	-	-	-
Operating Transfers Out (Note 13)				-	-	-	-	-	-
Change in net assets				32,781	8,047	1,465	(6,638)	1,254	2,853
Total Net Assets- July 1 - As Restated				-	27,984	36,031	38,476	31,838	33,092
Prior Period Adjustments				(4,797)	-	-	-	-	-
Cumulative effect of account change				-	-	-	-	-	-
Total Net Assets - July 1 - As Restated				(4,797)	27,984	36,031	38,476	31,838	33,092
Net Assets- June 30				27,984	36,031	37,496	31,838	33,092	35,945
60 days of expenses									
(Total Operating Expenses divided by 6)				15,516	15,480	15,023	22,940	16,124	16,191

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	1,824	176	0	2,000	176	0	2,000	4,000
Local Assistance	509,964,988	8,462,265	2,170,593	520,597,846	13,895,729	3,090,015	526,950,732	1,047,548,578
Grants	119,604,611	14,082,528	85,000	133,772,139	21,003,299	85,000	140,692,910	274,465,049
<b>Total Costs</b>	<b>\$629,571,423</b>	<b>\$22,544,969</b>	<b>\$2,255,593</b>	<b>\$654,371,985</b>	<b>\$34,899,204</b>	<b>\$3,175,015</b>	<b>\$667,645,642</b>	<b>\$1,322,017,627</b>
General Fund	509,632,139	8,470,114	2,255,593	520,357,846	13,903,578	3,175,015	526,710,732	1,047,068,578
State/Other Special	750,000	0	0	750,000	0	0	750,000	1,500,000
Federal Special	119,189,284	14,074,855	0	133,264,139	20,995,626	0	140,184,910	273,449,049
<b>Total Funds</b>	<b>\$629,571,423</b>	<b>\$22,544,969</b>	<b>\$2,255,593</b>	<b>\$654,371,985</b>	<b>\$34,899,204</b>	<b>\$3,175,015</b>	<b>\$667,645,642</b>	<b>\$1,322,017,627</b>

**Program Description**

The Local Education Activities program is used by OPI to distribute various state and federal funds to local education agencies.

**Program Highlights**

Office Of Public Instruction	
Local Education Activities – Distribution to Schools Program	
Major Budget Highlights	
<ul style="list-style-type: none"> <li>OPI's budget for distribution to schools increases by \$62.9 million during the 2007 biennium. Of this amount, \$27.8 million is an increase in state general fund and \$35.1 million is an increase in federal authority. <ul style="list-style-type: none"> <li>The Governor's recommendations are based on the current funding methodology and do not take into consideration the recent court decision that the existing method is unconstitutional</li> </ul> </li> <li>In the general fund, the executive proposes to: <ul style="list-style-type: none"> <li>Increase present law BASE aid by \$16.4 million, which reflects a BASE aid reduction of \$11.9 million for declines in ANB, a BASE aid increase of \$29.0 million for inflation, and adjustments for higher common school revenue estimates (which result in reductions in general fund BASE aid) of \$0.7 million</li> <li>Increase present law special education spending by \$1.5 million, and add new special education spending of \$2.3 million</li> <li>Increase present law school facility spending by \$0.3 million and new school facility spending by \$2.0 million.</li> <li>Increase present law transportation spending by \$0.3 million</li> <li>Increase present law HB 124 block grants by \$1.9 million.</li> </ul> </li> </ul>	

<ul style="list-style-type: none"> <li>• Increase secondary vocational education spending by \$0.6 million</li> <li>• Increase gifted and talented spending by \$0.2 million</li> <li>• Increase present law biennial appropriations by \$0.4 million</li> <li>• In federal spending the executive proposes to: <ul style="list-style-type: none"> <li>• Increase spending on special education by \$18.5 million.</li> <li>• Increase spending for the federal school foods program of \$9.9 million</li> <li>• Increase spending on the Elementary and Secondary Education Act (ESEA) program by \$6.8 million primarily for the 21<sup>st</sup> Century Program</li> </ul> </li> </ul>
<b>Major LFD Issues</b>
<ul style="list-style-type: none"> <li>• Higher revenue estimates for Base Aid adopted by the Revenue and Transportation Interim Committee in the guarantee fund account could reduce general fund costs by \$6.9 million</li> </ul>

### Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the executive.

Program Funding Table Local Education Activities						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 509,632,139	80.9%	\$ 520,357,846	79.5%	\$ 526,710,732	78.9%
02402 Traffic & Safety Education	750,000	0.1%	750,000	0.1%	750,000	0.1%
03170 Grant Clearance Discretionary	119,189,284	18.9%	133,264,139	20.4%	140,184,910	21.0%
Grand Total	<u>\$ 629,571,423</u>	<u>100.0%</u>	<u>\$ 654,371,985</u>	<u>100.0%</u>	<u>\$ 667,645,642</u>	<u>100.0%</u>

The following Figure provides a more detailed summary of the executive's recommendations.



**Figure 3**  
**Distribution to Schools, General Fund, State Special, and Federal Funds**

Description	Base Budget 2004	PL Base Adjustments Fiscal 2006	New Proposals Fiscal 2006	Total Fiscal 2006	PL Base Adjustments Fiscal 2007	New Proposals Fiscal 2007	Total Fiscal 2007
<b>General Fund</b>							
Direct State Aid	\$275,803,071	\$6,061,843	\$0	\$281,864,914	\$9,499,752	\$0	\$285,302,823
GTB - School General Fund	102,899,850	1,733,881	122,047	104,755,778	2,534,189	228,581	105,662,620
GTB - School Retirement	23,585,922	-2,067,820	0	21,518,102	-1,357,211	0	22,228,711
School Facility Reimbursement	8,270,735	140,558	1,000,000	9,411,293	140,558	1,000,000	9,411,293
Special Education	34,867,755	1,535,812	763,546	37,167,113	1,535,812	1,576,434	37,980,001
Transportation	12,042,550	100,000	0	12,142,550	200,000	0	12,242,550
Instate Treatment	778,794	196,102	0	974,896	196,102	0	974,896
Secondary Vo Ed	715,000	0	285,000	1,000,000	0	285,000	1,000,000
Adult Basic Ed	275,000	0	0	275,000	0	0	275,000
Gifted & Talented	142,151	7,849	85,000	235,000	7,849	85,000	235,000
School Food	648,653	0	0	648,653	0	0	648,653
Other	144,100	7,256	0	151,356	10,270	0	154,370
HB 124 Block Grants	<u>49,458,558</u>	<u>754,633</u>	<u>0</u>	<u>50,213,191</u>	<u>1,136,257</u>	<u>0</u>	<u>50,594,815</u>
<b>Total General Fund</b>	<b>\$509,632,139</b>	<b>\$8,470,114</b>	<b>\$2,255,593</b>	<b>\$520,357,846</b>	<b>\$13,903,578</b>	<b>\$3,175,015</b>	<b>\$526,710,732</b>
<b>State Special Revenue</b>							
Traffic Safety Distribution	<u>\$750,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$750,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$750,000</u>
<b>Total State Special</b>	<b>\$750,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$750,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$750,000</b>
<b>Federal Special Revenue</b>							
Federal School Foods Programs	\$20,655,534	\$3,700,000	\$0	\$24,355,534	\$6,150,000	\$0	\$26,805,534
ESEA - Title I	41,837,295	500,000	0	42,337,295	500,000	0	42,337,295
ESEA Title II - Teacher & Principal Training	15,684,664	675,000	0	16,359,664	675,000	0	16,359,664
ESEA Title III-Language Acquisition	514,494	0	0	514,494	0	0	514,494
ESEA Title IV Drug Free & 21 st Cent Schools	4,304,061	2,200,000	0	6,504,061	2,200,000	0	6,504,061
ESEA Title V & VI - Innovative Ed & Rural	2,199,786	0	0	2,199,786	0	0	2,199,786
ESEA Title X - Ed of Homeless Children	173,500	0	0	173,500	0	0	173,500
IDEA	27,706,176	6,999,855	0	34,706,031	11,470,626	0	39,176,802
Adult Basic Education	1,239,214	0	0	1,239,214	0	0	1,239,214
Carl Perkins	3,135,477	0	0	3,135,477	0	0	3,135,477
Learn and Serve Montana	30,462	0	0	30,462	0	0	30,462
Emergency School Renovation	312,804	0	0	312,804	0	0	312,804
Reading Excellence	<u>1,395,816</u>	<u>0</u>	<u>0</u>	<u>1,395,816</u>	<u>0</u>	<u>0</u>	<u>1,395,816</u>
<b>Total Federal Special</b>	<b>\$119,189,284</b>	<b>\$14,074,855</b>	<b>\$0</b>	<b>\$133,264,139</b>	<b>\$20,995,626</b>	<b>\$0</b>	<b>\$140,184,910</b>
<b>Funding</b>							
Total General Fund	\$509,632,139	\$8,470,114	\$2,255,593	\$520,357,846	\$13,903,578	\$3,175,015	\$526,710,732
Total State Special	750,000	0	0	750,000	0	0	750,000
Total Federal Special	<u>119,189,284</u>	<u>14,074,855</u>	<u>0</u>	<u>133,264,139</u>	<u>20,995,626</u>	<u>0</u>	<u>140,184,910</u>
<b>Total Distribution to Public Schools</b>	<b><u>\$629,571,423</u></b>	<b><u>\$22,544,969</u></b>	<b><u>\$2,255,593</u></b>	<b><u>\$654,371,985</u></b>	<b><u>\$34,899,204</u></b>	<b><u>\$3,175,015</u></b>	<b><u>\$667,645,642</u></b>
<b>Statutory Appropriations</b>							
Guarantee Account - Interest & Income	\$47,257,759	\$619,241	\$0	\$47,877,000	\$441,241	\$0	\$47,699,000
Guarantee Account -Timber (HB537)	<u>0</u>	<u>1,700,000</u>	<u>0</u>	<u>1,700,000</u>	<u>1,700,000</u>	<u>0</u>	<u>1,700,000</u>
<b>Total Statutory</b>	<b><u>\$47,257,759</u></b>	<b><u>\$2,319,241</u></b>	<b><u>\$0</u></b>	<b><u>\$49,577,000</u></b>	<b><u>\$2,141,241</u></b>	<b><u>\$0</u></b>	<b><u>\$49,399,000</u></b>

**Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----						-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - K-12 BASE Aid	0.00	5,727,904	0	0	5,727,904	0.00	10,676,730	0	0	10,676,730
DP 5 - Special Education Increase to FY 2005 level	0.00	1,535,812	0	0	1,535,812	0.00	1,535,812	0	0	1,535,812
DP 19 - Transportation Aid - Increased State Obligation	0.00	100,000	0	0	100,000	0.00	200,000	0	0	200,000
DP 20 - School Facility Reimbursement	0.00	140,558	0	0	140,558	0.00	140,558	0	0	140,558
DP 22 - School Block Grants	0.00	754,633	0	0	754,633	0.00	1,136,257	0	0	1,136,257
DP 23 - School District Audit Filing Fee	0.00	7,256	0	0	7,256	0.00	10,270	0	0	10,270
DP 25 - Biennial Appropriations	0.00	203,951	0	0	203,951	0.00	203,951	0	0	203,951
DP 28 - Increasing Federal authority to anticipated level	0.00	0	0	14,074,855	14,074,855	0.00	0	0	20,995,626	20,995,626
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$8,470,114</b>	<b>\$0</b>	<b>\$14,074,855</b>	<b>\$22,544,969</b>	<b>0.00</b>	<b>\$13,903,578</b>	<b>\$0</b>	<b>\$20,995,626</b>	<b>\$34,899,204</b>
Grand Total All Present Law Adjustments					\$22,544,969					\$34,899,204

DP 1 - K-12 BASE Aid - This request is for funding for the K-12 BASE Aid present law adjustment as defined by Section 20-9-326, MCA and adjusted for available guarantee fund revenue. It includes inflation on the basic and per-ANB entitlements and changes in enrollment. The inflator for FY 2006 (calculated using CPI-Urban indexes for July 2000 and July 2003) is 2.10 percent. The inflator for FY 2007 (calculated using CPI-Urban indexes for July 2001 and July 2004) is 2.19 percent. ANB (number of students) are anticipated to decline 1.5 percent in FY 2006 and 1.2 percent in FY 2007.

An anticipated increase in the guarantee fund revenues of \$0.6 million in FY 2006 and \$0.4 million in FY 2007 offset increases in general fund by a like amount. The net increase in general fund cost is \$5.7 million in FY 2006 and \$10.7 million in FY 2007. The total \$16.4 million is a biennial appropriation.

**LFD  
COMMENT**

The following figure shows historical and expected Average Number Belonging (ANB), a measure of the number of funded enrollees by fiscal year. ANB is expected to decline 1.5 percent in FY 2006 and by 1.2 percent in FY 2007. ANB declines are expected for at least 8 to 10 more years as declines in the birth rate in the nineties results in fewer children attending public school. Recent increases in the birth rate are expected to continue but will not increase school populations for several more years.

Figure 4							
Average Number Belonging (ANB) in Montana Schools							
Fiscal Year	Elementary	Percent Change	High School	Percent Change	Total	Percent Change	
<b>Actual &amp; Present Law</b>							
A	1994	111,507		45,403		156,910	
A	1995 *	114,735	2.9%	47,891	5.5%	162,626	3.6%
A	1996	114,697	0.0%	49,043	2.4%	163,740	0.7%
A	1997	114,093	-0.5%	50,586	3.1%	164,679	0.6%
A	1998	112,442	-1.4%	51,432	1.7%	163,874	-0.5%
A	1999	109,852	-2.3%	51,885	0.9%	161,737	-1.3%
A	2000	107,731	-1.9%	52,025	0.3%	159,756	-1.2%
A	2001	105,968	-1.6%	51,507	-1.0%	157,475	-1.4%
A	2002	103,627	-2.2%	50,794	-1.4%	154,421	-1.9%
A	2003	101,140	-2.4%	50,357	-0.9%	151,497	-1.9%
A	2004	99,465	-1.7%	50,003	-0.7%	149,468	-1.3%
A	2005	98,186	-1.3%	49,466	-1.1%	147,652	-1.2%
E	2006	96,212	-2.0%	49,299	-0.3%	145,511	-1.5%
E	2007	95,110	-1.1%	48,604	-1.4%	143,714	-1.2%

Beginning in fiscal 1995, ANB Includes students who spend more than 1/2 day in special education class.

**LFD  
COMMENT**

The Figure 5 provides data on the present law proposed change in Base Aid, as well as other changes in present and proposed law in the distribution to schools program. The estimates for the present law BASE aid change include the following assumption:

- ANB declines of 1.5 percent in fiscal 2006 and 1.2 percent in fiscal 2007, resulting in biennial Base Aid savings of \$11.9 million
- Inflation applied to the Basic and Per-ANB entitlements in both elementary and high school of 2.1 percent in FY 2006 and 2.19 percent in FY2007, resulting in biennial increases in Base Aid spending of \$29 million
- An increase in Special Education allowable costs of \$1.5 million in each year of the 2007 biennium, which increases Guaranteed Tax Base (GTB) aid
- Slightly more common school revenue (in the guarantee fund) available for Base Aid of approximately \$1 million, over the biennium, is assumed. Base Aid is paid for first from the guarantee fund out of common school revenues which consist of interest from the common school trust, income from leasing agricultural land and royalties from oil, natural gas and coal sales from common school land. The remainder of the Base Aid required for present law comes from the general fund. When there are more revenues in the guarantee fund, the amount required by the general fund is reduced

**LFD  
COMMENT  
CONT.**

**Figure 5**  
Executive Proposals for K-12 Distribution to Schools - 2007 Biennium  
By Fund and Decision Package Number

<b>Present Law Adjustments</b>		<b>Fiscal 2006</b>	<b>Fiscal 2007</b>	<b>Biennium</b>
<b>Decision Package</b>	<b>General Fund</b>			
	Base Aid Changes			
<b>DP01</b>	Reduction Due to Fewer ANB	(\$3,380,356)	(\$8,481,001)	(\$11,861,357)
<b>DP01</b>	Inflation Adjustment (2.1% - FY06; 2.19% FY07)	9,554,956	19,429,308	28,984,264
<b>DP05</b>	BASE Aid Due to Spec Ed Present Law Adjustment	172,545	169,664	342,209
<b>None</b>	Adjustment for Higher Common School Revenue	(619,241)	(441,241)	(1,060,482)
	<b>Total Base Aid Changes</b>	<b>\$5,727,904</b>	<b>\$10,676,730</b>	<b>\$16,404,634</b>
<b>DP19</b>	Transportation	\$100,000	\$200,000	\$300,000
<b>DP05</b>	Special Education	1,535,812	1,535,812	3,071,624
<b>DP20</b>	School Facility	140,558	140,558	281,116
<b>DP22&amp;25</b>	Other Biennial	211,207	214,221	425,428
<b>DP22</b>	HB 124 Block Grants	754,633	1,136,257	1,890,890
	<b>Total General fund</b>	<b>\$8,470,114</b>	<b>\$13,903,578</b>	<b>\$22,373,692</b>
<b>New Proposals</b>		<b>Fiscal 2006</b>	<b>Fiscal 2007</b>	<b>Biennium</b>
	<b>General Fund</b>			
	Base Aid Changes			
<b>DP06</b>	BASE Aid Due to Spec Ed Increase	\$122,047	\$228,581	\$350,628
<b>DP06</b>	Special Education Increase	763,546	1,576,434	2,339,980
<b>DP21</b>	School Facility Increase	1,000,000	1,000,000	2,000,000
<b>DP51</b>	Secondary Vo-Ed Increase	285,000	285,000	570,000
<b>DP50</b>	Gifted and Talented Increase	85,000	85,000	170,000
	<b>Total General Fund - New Proposals</b>	<b>\$2,255,593</b>	<b>\$3,175,015</b>	<b>\$5,430,608</b>
	<b>Net Change General Fund Over Base</b>	<b>\$10,725,707</b>	<b>\$17,078,593</b>	<b>\$27,804,300</b>
	<b>State Spending in the 2004 general fund base budget</b>			509,632,139
	<b>BASE Aid in the Guarantee Fund</b>			47,257,759
	<b>Total State Spending on K-12 - FY2004</b>			<b>\$556,889,898</b>

The executive revenue projections for common school revenue available for Base Aid in the guarantee fund are \$6.9 million below those adopted by the Revenue and Transportation Interim Committee (RTIC) on November 16, 2004. The RTIC adopted revenue estimates are \$3.7 million higher in FY 2006 and \$3.2 million higher in FY 2007. The projections used for BASE Aid in the guarantee fund should be adjusted during the legislative process to match the projections in the legislative revenue estimates (HJR 2). If the legislature adopts the RTIC numbers for guarantee revenue available for Base Aid, the amount of required Base Aid in the general fund will fall by \$6.9 million.

There is a possibility that revenue estimates for guarantee revenues for BASE Aid are overstated and that amendments may be necessary that will reduce the estimates. At issue is the potential reduction in capital gains income from the sale of bonds. LFD staff is researching this issue and, if necessary, will recommend HJR 2 amendments to the appropriate tax committee.

DP 5 - Special Education Increase to FY 2005 level - Special education services to students with disabilities. - State and federal laws require schools to provide these services. The Individuals with Disabilities Education Act (IDEA) includes a provision in 34 CFR 300.154(b) that requires state maintenance of fiscal effort. If state appropriations decline from one year to the next, federal funding to the state is reduced dollar for dollar to the amount of the reduction in state funds.

The amount of special education dollars spent in FY 2004 was \$34,900,310, and the amount appropriated for FY 2005 was \$36,436,122 for a difference of \$1,535,812 per year. This is the amount added to the base special education appropriation for fiscal 2006 and 2007. This is a biennial appropriation.

DP 19 - Transportation Aid - Increased State Obligation - An increase in the state obligation for school district on - schedule transportation costs is anticipated to increase by \$100,000 in each year of the next biennium. Increased costs are primarily due to changes in the number of bus miles and the size of the buses approved by the county school transportation committee. This is a biennial appropriation.

**LFD  
COMMENT**

This request provides additional funding for district on-schedule transportation costs so claims can be paid as required by law. The request is to establish the 2007 biennial appropriation for state transportation aid payments at the 2005 biennium appropriated amount of \$24.2 million plus \$100,000/year. Several things, including increases in bus sizes, increases in the number of bus miles traveled, increases in the number of individual contracts, and declines in the amount of district reappropriations will all affect the amount of this statutorily mandated payment.

DP 20 - School Facility Reimbursement - To promote safe school facilities and as a measure of taxpayer fairness, Montana has established a statutory formula for providing state payments to low property tax wealth school districts to assist with debt service payments on school bonds. The state school facility reimbursement expenditure in the base year was \$8,270,735. In FY 2005 the amount available to distribute is \$8,411,293, for a difference of \$140,588 per year. The increase to the FY 2005 level is a present law adjustment. This is a biennial appropriation.

DP 22 - School Block Grants - 20-9-630 and 632, MCA provides for an annual 0.76 percent increase in the county transportation and school district block grants. These block grants originated from HB 124 of the 2001 legislative session and are intended to replace former local sources of revenue to school districts with state general fund. This is a biennial appropriation.

DP 23 - School District Audit Filing Fee - This increase in general fund authority for school district audit filing fees of \$7,256 in FY 2006 and \$10,270 in FY 2007 would allow OPI to pay school district audit filing. Payment of this fee from OPI to the Department of Administration is required by 2-7-514(2), MCA. This increase assumes school district revenues will increase 3 percent each year. Base year expenditures are \$144,000. This is a biennial appropriation.

DP 25 - Biennial Appropriations - This \$203,951 per year present law adjustment establishes biennial appropriations in each year at half of the amount appropriated for the 2005 biennium. In the base year each of these appropriations spent less than half of the biennial appropriation. The increase maintains the present law amounts. The biennial appropriations include:

- Instate treatment - \$1,949,792
- Secondary Vo-ed - \$1,430,000
- Adult Basic Ed - \$550,000
- Gifted and Talented - \$300,000
- School Foods - \$1,297,306

DP 28 - Increasing Federal authority to anticipated level - This \$35 million biennial adjustment in federal spending authority for grant awards currently administered by the Office of Public Instruction adjusts appropriations to the anticipated level of federal revenue. This is a biennial appropriation.

**LFD  
COMMENT**

The figure below shows the purposes for which the increased federal authority is expected. A large increase is expected in special education, in the federal foods program, and in elementary and secondary education act monies, especially for the 21<sup>st</sup> century program.

The 21<sup>st</sup> century program supports the creation of community learning centers that provide academic enrichment opportunities for children, particularly students who attend high-poverty and low-performing schools. The program helps students meet state and local student standards in core academic subjects, such as reading and math; offers students a broad array of enrichment activities that can complement their regular academic programs; and offers literacy and other educational services to the families of participating children.

**Figure 6**  
Federal Grant Awards  
Present Law Adjustments

Programs Increased	Base 2004	Increase / Decrease	
		Fiscal 2006	Fiscal 2007
Individuals with Disabilities Education Act, Part B	\$26,320,546	\$6,999,855	\$11,470,626
Title IV, Part B - 21st Century	2,764,679	2,200,000	2,200,000
Child Nutrition - School Lunch	16,060,616	2,200,000	3,600,000
Child Nutrition - School Lunch	3,838,161	1,000,000	1,800,000
Child Nutrition - School Lunch	756,755	500,000	750,000
Title II, Part B - Math.Science	28,214	675,000	675,000
Title I	36,690,193	500,000	500,000
Total	<u>\$86,459,164</u>	<u>\$14,074,855</u>	<u>\$20,995,626</u>

**New Proposals**

Fiscal 2006						Fiscal 2007				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6 - Special Education Increase										
09	0.00	885,593	0	0	885,593	0.00	1,805,015	0	0	1,805,015
DP 21 - Additional School Facility Reimbursement										
09	0.00	1,000,000	0	0	1,000,000	0.00	1,000,000	0	0	1,000,000
DP 50 - Additional funding - Gifted and Talented										
09	0.00	85,000	0	0	85,000	0.00	85,000	0	0	85,000
DP 51 - Additional funding - Career & Technical Education										
09	0.00	285,000	0	0	285,000	0.00	285,000	0	0	285,000
Total	0.00	\$2,255,593	\$0	\$0	\$2,255,593	0.00	\$3,175,015	\$0	\$0	\$3,175,015

**DP 6 - Special Education Increase** - In addition to the amount appropriated in FY 2005, the executive is recommending that the inflationary adjustment provided in Section 20-9-326, MCA be applied to special education funding as well as basic and per ANB entitlements. The inflators used are 2.10 percent in FY 2006 and 2.19 percent in FY 2007. The additional general fund requirement is \$2.8 million in the biennium. This is a biennial appropriation.

**LFD  
COMMENT**

The increase in the special education appropriation is actually \$2.3 million. Because the minimum district general fund budget includes 40 percent of the special education appropriation, the increase in the special education appropriation results in additional GTB aid, as well as an increase in local mandatory property taxes. The GTB increase is expected to be \$0.4 million for the biennium. The sum of these amounts is shown in the table above.

**DP 21 - Additional School Facility Reimbursement** - In addition to the present law increase provided for school facility reimbursement, the executive recommends an additional \$1 million in each year of 2007 biennium to be distributed to school districts for school facility bond payments. As additional bonds are passed throughout the state additional state support is needed to keep the proration of eligible costs close to 100 percent. This is a biennial appropriation.

**LFD  
ISSUE**

The school facility appropriation subsidizes debt service on the bonds districts incur for the construction of buildings. It is distributed to schools inversely, relative to taxable value wealth per ANB. If the appropriation is not enough to fully fund all eligible districts, then the amount each district receives is prorated. If all probable bonds are passed by voters during the 2007 biennium, the increased need would be \$2.5 million to keep the pro-ratio percentage at 100 percent. However, this was predicated on passage of the Billings High School bond issue in the Fall of 2004, and would have required over \$1 million in state school facility payments. This bond issue failed. It is expected, however, that the bond issue will again be up for consideration in the Spring of 2005.

DP 50 - Additional funding - Gifted and Talented - This proposal adds \$85,000 general fund per year to the current gifted and talented block grant of \$150,000 per year. These funds are used to provide a small amount of earmarked funds for the gifted and talented programs in schools. Most gifted and talented funding services are provided by the district general fund budgets. This is a biennial appropriation.

**LFD  
COMMENT**

Spending in the gifted and talented program has been at \$150,000 per year since 1994 when it was reduced from \$300,000 per year. Since then inflation has been 28 percent. If the gifted and talented appropriation had risen with inflation, school districts would have had a cumulative increase of \$225,000 between 1994 and 2004. This program is required by state statute and by the Board of Public Education.

DP 51 - Additional funding - Career & Technical Education - This request increases the state Vocational-Education or Career and Technical Education allocation from \$715,000 to \$1,000,000 general fund per year. The requested funding is to support Career and Technical Education programs to keep pace with the nature of student needs for the needs of today's technical economy. This is a biennial appropriation.

**LFD  
COMMENT**

The secondary vo-ed appropriation was increased to \$715,000 from \$650,000 per year in FY 2000. If the appropriation for secondary vo-ed had grown at the rate of inflation, the cumulative increases between 2000 and 2004 would have been \$67,000.

- This allocation is distributed among 173 schools and serves 490 CTE Programs.
- The executive allocated \$250,000 in federal Jobs and Growth reconciliation Act monies to be distributed to secondary Vo-ed. This money was distributed to schools in FY 2004.

**Language**

All revenue received in the state traffic education account for distribution to schools under the provisions of 20-7-506 and 61-5-121 is appropriated as provided in Title 20, chapter 7, part 5. This appropriation may not exceed \$1 million a year.

The office of public instruction may distribute funds from the appropriation in item (Instate Treatment) to public school districts for the purpose of providing for educational costs of children with significant behavioral or physical needs.